

Message Text

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ACTION EUR-12

INFO OCT-01 IO-14 ISO-00 SP-02 ICA-20 AID-05 EB-08
NSC-05 TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00
COME-00 FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06
LAB-04 SIL-01 L-03 H-02 PA-02 SEC-01 /125 W
-----060382 261005Z /10

R 260805Z JUL 78
FM AMEMBASSY BERN
TO SECSTATE WASHDC 6629
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
USMISSION GENEVA
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMCONSUL ZURICH POUCH

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USMTN ALSO FOR MISSION
USOECN ALSO FOR EMBASSY
PASS TREAS FRB
EO 11652: NA
TAGS: EFIN, SZ
SUBJ: SWISS FINANCIAL REVIEW: WEEK JULY 17-21
1. SUMMARY: DOLLAR CLOSED NEAR RECORD LOW AT
SF 1.7860. GOLD UP TO \$191.25. M1 18.3 PCT
HIGHER THAN YEAR EARLIER. SNB OUTLINES PLAN TO
IMPROVE CONTROL OVER MONETARY BASE. MORE SWISS
SHAREHOLDERS. SOCIAL SECURITY SYSTEM IN DEFICIT.
END SUMMARY.
2. FOREX GOLD
A) FOREX MARKET WAS QUIET EARLY IN WEEK AS
OBSERVERS EXPRESSED GENERAL SATISFACTION WITH
BONN MEETING. DOLLAR REACHED HIGH SF 1.8325 TUES.
SLIDE STARTED THURS AFTER THE FOUR LARGEST SWISS
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BANKS RAISED INTEREST RATES ON DEPOSITS OVER SF
100,000 BY ONE-HALF PERCENTAGE POINT. SF WAS
SHARPLY FIRMER FRI IN ACTIVE TRADING. MARKET
REPORTEDLY DISAPPOINTED AT LACK OF CONCRETE DOLLAR
SUPPORTING ACTION AT BONN SUMMIT; INCREASED BY
FEARS OPEC MAY ADOPT BASKET OF CURRENCIES RATHER
THAN DOLLAR FOR PRICING.

B) GOLD TRADING QUIET EARLY IN WEEK, BUT PRICE
BOUNDED THURS AND FRI IN RESPONSE TO DOLLAR WEAK-
NESS TO CLOSE NEARLY \$7.00 HIGHER THAN WEEK'S LOW
MONDAY OF \$184.50. RATES FOLLOW:

7/17 (OPEN) 7/21 (CLOSE)

SPOT DOLLAR 1.8170 1.7860

FORWARD DISCOUNTS

(PCT PER ANNUM)

1 MONTH 7.04 6.71

2 MONTHS 6.88 6.38

3 MONTHS 6.80 6.49

6 MONTHS 6.89 6.51

12 MONTHS 6.51 6.38

SF/DM 88.11 87.03

GOLD 184.75 191.25

3. CAPITAL MONEY MARKETS:

A) STOCK MARKET TURNOVER LIGHT AS INVESTORS
WAITED FOR BONN SUMMIT TO GIVE CLEARER DIRECTION
T O MARKET. SKA INDEX CLOSED UP 0.5 PCT AT 252.7.
AVERAGE YIELD CONFEDERATION BONDS EDGED UP TO 3.38
PCT. THREE-MONTH EURO-FRANC RATE INCREASED TO TWO
AND ONE-EIGHTH PCT.

B) FOUR LARGEST SWISS BANKS ANNOUNCED ONE-HALF
PERCENTAGE RATE INCREASE ON DEPOSITS OF SF 100,000
OR MORE. DEPOSITS 3-11 MONTHS EARN ONE AND ONE-HALF
PCT, 12 MONTHS EARNS ONE AND THREE-QUARTERS PCT.
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C) SNB ANNOUNCED M1 AT END MAY 18.3 PCT HIGHER
THAN END-MAY 1977. INCREASE FOR YEAR NOT EXPECTED
TO BE AS LARGE; M1 HAD DECLINED FROM END-APR TO END-
MAY 1977, BUT LARGE INCREASES SO FAR IN 1978 HAVE
OBSERVERS CONCENRED.

D) FEDERATION OF SWISS CONSUMERS HAS CRITICIZED
SNB FOR EXCHANGING SOLID SF FOR WEAK DOLLAR. GROUP
CLAIMS SNB HAS LOST CONTROL OVER MONEY SUPPLY AND
HAS FAILED IN EFFORT TO LOWER VALUE OF FRANC.

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E) ACCORDING TO SNB VP PROF LEO SCHUERMAN, BANK IS INVESTIGATING MEASURES TO EXPAND NATL MONEY MARKET WHICH WOULD IMPROVE TECHNIQUES AVAILABLE FOR IMPLEMENTING MONETARY POLICY. BANK FORESEES CREATION OF PRIMARY AND SECONDARY MARKET IN NEGOTIABLE 'ACCTS RECEIVABLE' BOOK ENTRIES IN FAVOR OF THE INVESTOR. WOULD PROBABLY HAVE MATURITIES OF ONE MONTH TO ONE YEAR IN MINIMUM DENOMINATIONS; AT FIRST, ONLY THE CONFEDERATION AND THE SNB WOULD BE ISSUERS. THERE WOULD BE NO LIMITATION ON WHO COULD BUY THE ACCTS RECEIVABLE. SCHUERMAN THINKS THERE MIGHT BE A CERTAIN SUBSTITUTION BY FOREIGNERS OF SF DEPOSITS FOR THESE MONEY MARKET ACCTS. SUCH SUBSTITUTION WOULD BE LARGELY NEUTRAL AS FAR AS EXCHANGE RATES ARE CONCERNED. SNB IS INITIALLY CONCENTRATING ITS ATTENTION ON CONVERSION OF RESCRIPTION ACCTS (TYPE OF TREASURY UNCLASSIFIED

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BILL) OR REDEMPTION OF CONFEDERATION BONDS, WITH THE ACCTS RECEIVABLE ACQUIRED AS A REPLACEMENT. A SYSTEM OF THIS KIND, IN WHICH TRADING WILL BE ON A DISCOUNT BASIS IS PREFERRED TO THE ISSUE OF SHORT-TERM SECURITIES, WHICH ARE SAID BY SNB TO BE IMPRACTICAL FOR FISCAL REASONS IN THAT THEY WOULD BE SUBJECT TO WITHHOLDING AND TURNOVER TAX. THGE CREATION OF THE NEW SHORT-TERM FACILITIES IS INTENDED TO GIVE SNB POSSIBILITY TO CONTROL THE MONETARY BASE BY DOMESTIC MEANS. CONTROL IN PAST CARRIED OUT ALMOST ENTIRELY THROUGH FOREX MARKET INTERVENTION.

4. SWISS BANKS: ACCORDING TO STUDY PUBLISHED BY PRIVATE BANK PICTET CO OF GENEVA, BALANCE SHEETS OF THE THREE LARGEST SWISS BANKS (SWISS BANK CORP, UNION BANK OF SWITZ, CREDIT SUISSE) TOGETHER ADD TO EQUIVALENT OF 46 PCT OF SWISS GNP AT END 1976 COMPARED TO 30 PCT AT END 1960. SBC HAS LARGEST AMOUNT OF FOREIGN BUSINESS; UBS ACTIVELY TRADES BETWEEN BANKS AND IS VERY ACTIVE IN LOANS AND MORTGAGES; CREDIT SUISSE IS STRONG IN LOANS AND IN INDUSTRIAL AND BUSINESS INVESTMENTS. PICTET FORECASTS SLOWER GROWTH FOR BIG 3 DUE TO LOWER INTEREST RATES, WEAKNESS OF CURRENCIES, AND MEASURES TO CONTAIN APPRECIATING SF WHICH WILL LOWER INCOME ON SECURITIES.

5. MORE SWISS SHAREHOLDERS: A SURVEY BY THE WEEKLY SCHWEIZERISCHER HANDELS ZEITUNG SHOWS THERE ARE SOME 650,000 SHAREHOLDERS IN SWITZERLAND IN MID-1978, UP FROM 501,000 IN MID-1975. HOLDERS OF REGISTERED SHARES HAVE INCREASED FROM 315,000 TO 432,000. NESTLE IS MOST WIDELY HELD STOCK IN SWITZERLAND WITH 90,000 SHAREHOLDERS, FOLLOWED UNCLASSIFIED

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BY CIBA-GEIGY WITH 80,000 AND THE BIG 3 BANKS WITH 70,000 EACH.

6. SOCIAL SECURITY DEFICIT: SWISS SOCIAL SECURITY SYSTEM SUFFERED A SF 642 MILLION DEFICIT IN 1977, LARGER THAN THE SF 426 MILLION DEFICIT FORECAST IN OCT 1977. REASONS FOR DEFICIT ATTRIBUTED BY GOVT TO: A) REDUCTION OF FEDERAL CONTRIBUTION BEGINNING JAN 1977 AS PART OF EFFORT TO REDUCE CONFEDERATION DEFICIT; B) SLOWER INCREASE IN PAYMENTS MADE BY EMPLOYERS AND EMPLOYEES; C) OVERDUE COST OF LIVING ADJUSTMENT FOR BENEFICIARIES EFFECTIVE JAN 1977; AND D) SLOW RECOVERY OF ECONOMY WHICH DELAYED CERTAIN PAYMENTS INTO THE SYSTEM. DEFICIT FINANCED BY DRAWING DOWN SYSTEMS RESERVE

WHICH TOTALLED SF 7 BILLION END 1977. RETURN TO SURPLUS FORECAST IN IMMEDIATE FUTURE DUE TO INCREASED CONFEDERATION CONTRIBUTIONS IN 1978, 1980 AND 1981, AND TO REVISION OF BENEFITS SYSTEM IN 1979. CROWLEY

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